



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** October 5, 2015

**IBA Report Number:** 15-36

**Charter Review Committee Date:** October 8, 2015

**Item Number:** 1, 3, 4, and 5

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# Proposed Changes to Financial/Budgetary Sections (Article VII) of the City Charter

## BACKGROUND

On April 16 and May 14, 2015, the Charter Review Committee heard a number of proposals from the Independent Budget Analyst (IBA), Chief Financial Officer, and the City Attorney's Office for possible revisions and additions to the financial/budgetary sections of the City Charter. As a result of Committee discussions, the IBA was asked to work with the Chief Financial Officer, Mayor's Office, City Attorney's Office, Director of Legislative Affairs, and Committee Consultant, and return with proposed language and other materials for the Committee's consideration on October 8, 2015.

## RECOMMENDED LANGUAGE

Recommended language for possible revisions to the Charter is presented below, and organized to correspond with each docketed item on the October 8 Charter Review Committee agenda. The recommendations reflect a consensus that was reached during meetings between the IBA, Chief Financial Officer, Mayor's Office, City Attorney's Office, Director of Legislative Affairs, and Committee Consultant. The City Attorney's Office assisted in drafting Charter language that reflects the consensus of the group.

### **AGENDA ITEM 1:**

#### **§69 Annual Budget [currently Fiscal Year and Manager's Estimate]**

It is recommended that Section 69 of the Charter (currently titled Fiscal Year and Manager's Estimate) be replaced by the new Annual Budget section, which better reflects the City's budget processes. The text for the new Annual Budget Charter section is dated September 4, 2015 and

has been included in the docketed materials for the Charter Review Committee meeting on October 8, 2015.

### **Multi-Year Financial Outlook**

Section 69(a): *The Mayor shall annually prepare a multi-year financial outlook for the general fund projecting anticipated revenues and expenditures in future years as a fiscal planning document and basis for the proposed budget.*

### **City Council Budget Priorities Resolution**

Section 69(b): *Each Councilmember shall provide a memorandum to the Independent Budget Analyst setting forth the Councilmember's budget priorities early in each calendar year. The Independent Budget Analyst shall analyze the budget priorities of the Councilmembers and prepare a budget priorities resolution for Council consideration. Upon Council adoption of the budget priorities resolution, the resolution shall be sent to the Mayor for consideration in the proposed budget.*

### **Appropriation Ordinance**

Section 69(k): *No later than June 30, the Council shall adopt an appropriation ordinance setting forth the legal levels as which the Chief Financial Officer, as the designee of the Mayor, shall control operational and capital project spending. The preparation of the appropriation ordinance, including the form, arrangement and itemization thereof, shall be determined and prescribed by the Chief Financial Officer and the City Attorney. The adopted budget and salary ordinance shall be controlling documents in the preparation of the appropriation ordinance. In the event that the Council fails to adopt the appropriation ordinance prior to the beginning of the new fiscal year the spending controls in the prior year's appropriation ordinance shall continue, as modified by the adopted budget.*

### **Capital Project Planning and Program Development**

Section 71 Multi-year Capital Plan [currently Preparation and Passage of Appropriation Ordinance]: *The Mayor shall maintain a current, multi-year capital plan that identifies and prioritizes the deferred capital and infrastructure needs of the City and projects the amount of available funding sources over the term of the plan.*

### **Council Mid-Year Budget Amendment Authority**

Section 72 Mid-year Amendment to Annual Budget [currently Appropriation Accounts]: *The Council shall by ordinance set forth the terms and conditions under which the Mayor shall propose mid-year amendments to the annual budget.*

The Committee requested the IBA develop a list of pros and cons for including this authority in the City Charter. This list can be found in Attachment 1.

### **AGENDA ITEM 3:**

#### **§90 General Obligation Bonds [currently Contracting Bonded Indebtedness]**

Section 90 General Obligation Bonds: *The Council is authorized to provide for the issuance of general obligation bonds in accordance with the California Constitution. General obligation bonds may be issued and sold in accordance with state law and any other local procedure adopted by ordinance.*

### **AGENDA ITEM 4:**

#### **§91 General Fund to Operate on Cash Basis [currently General Reserve Fund]**

Section 91 General Fund to Operate on Cash Basis: *The City shall maintain sufficient cash on hand, including all funds available in the general fund or from which the general fund may temporarily borrow, to allow for keeping the payment of the running expenses of the general fund on a cash basis. In the event that the Chief Financial Officer determines that the general fund will not have sufficient cash available to meet all legal demands against the general fund prior to the receipt of necessary revenues in any fiscal year, the City may issue short term notes in accordance with Charter section 92.*

#### **§91.1 General Fund Reserves [new section]**

Section 91.1 General Fund Reserves: *The City shall establish a General Fund Reserve Policy that determines appropriate reserve levels. The City shall maintain General Fund Stabilization and Emergency Reserves that may be accessed by a 2/3 vote of City Council in the event of a significant emergency or economic downturn, unanticipated liability or adverse litigation that affects the revenues and expenditures in the General Fund. The Mayor shall propose and City Council shall adopt a plan to replenish the Emergency and Stabilization Reserves when the reserve balances are below the General Fund Reserve Policy amounts.*

*Other City reserves may be proposed by the Mayor and established by City Council as needed.*

### **AGENDA ITEM 5:**

#### **Reporting Performance Results**

Although our office originally suggested that a requirement to report performance results be considered for possible inclusion in the Charter, the group subsequently agreed that this requirement is better addressed in the City's Budget Policy.

#### **Budget Review Committee Hearings and May Revise**

Like the suggestion above, the group recommends that details pertaining to holding annual departmental budget hearings and timing of the Mayor's May Revise remain in the City's Budget Policy rather than in the Charter.

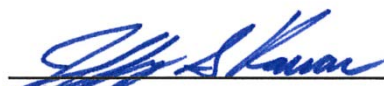
## CONCLUSION

The recommendations for Charter revisions proposed in this report represent a consensus that was reached between the Office of the Independent Budget Analyst, Chief Financial Officer, Mayor's Office, City Attorney's Office, Director of Legislative Affairs, and the Committee Consultant. The City Attorney's Office assisted in the preparation of this Charter language. It is also important to note that the proposed modifications may require that corresponding changes be made elsewhere in the Charter and possibly in other City documents (e.g., Municipal Code and Council Policies) to ensure consistency.



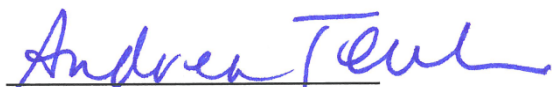
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Attachment 1:           Pros and cons of including the Council's Mid-Year Budget Amendment  
                                  Authority in the City Charter

Reasons for Including Mid-Year Budget Authority Language in the Charter

1. The Charter is silent on Mid-Year Budget Amendment Authority in the Strong Mayor-Strong Council form of government

While the current Charter addresses certain roles and levels of authority between the Executive and Legislative Branches for developing and adopting the annual budget, the Charter is silent with respect to making changes to the budget at mid-year, or any time after the budget has been formally adopted. As is noted below, a formal agreement between the Mayor and Council was required to clarify the mid-year budget amendment authority, and including a reference to this agreement would help resolve this issue under the Strong Mayor-Strong Council form of government.

2. The Mid-Year Budget Amendment Authority Ordinance is based on a goodwill agreement among the two branches

As issues have arisen in the Strong Mayor-Strong Council form of government, many have been addressed through informal day-to-day working relationships, while more critical issues have required the development of formal agreements between the Mayor and Council. The issue of mid-year budget authority is one such area. On August 4, 2011, the Council, with the Mayor's support, adopted the "Mid-Year Budget Amendment Authority Ordinance", the two main components of which are:

- a) Requiring the Mayor to report to Council whether a surplus or deficit has been projected at Mid-Year and provide recommendations to address the deficit or surplus; and
- b) Providing the Council the authority to revise the Mayor's proposed mid-year budget amendments up to the amount recommended by the Mayor.

This Ordinance has helped clarify authority levels while recognizing and balancing the respective roles of the two branches of government. As this Ordinance is currently based on an agreement between the current Mayor and Council, including the proposed language in the Charter would eliminate the uncertainty associated with future administrations.

3. The Mid-Year Budget Authority Ordinance has been tested in practice

This Ordinance has been the City's practice since adoption of the Ordinance in 2011, and was recently modified by the City Council, with the support of the Mayor, to simplify and further clarify its intent. The updated language represents a clear and balanced approach that acknowledges the Council's mid-year budget authority, which is currently lacking in the City's Charter.

Reason for Not Including Mid-Year Budget Authority Language in the Charter

1. Should a future Council wish to reconsider its Mid-Year Budget Amendment Authority, a vote of the people would be required